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Dairy and Products Annual

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Report Highlights:

In 2010, EU-27 raw milk production is stimulated by stronger domestic and international markets for dairy products. Food processors are diverting increased supplies of raw milk to production of cheese which generates a higher profit margin than on the manufacture of butter, non-fat dry milk or whole dry milk. Conditions that are spurring the dairy sector in 2010 are expected to prevail into 2011. Current market prices should enable the European Commission to avoid having to intervene in the butter and non-fat dry milk markets as occurred in 2009. Intervention stocks of butter and non-fat dry milk are disappearing under food assistance programs authorized for 2010 and 2011 and enhanced trade opportunities created with Oceania's lower profile on these markets.

Executive Summary:

Summary

In 2010, growing domestic and international demand for dairy products combined with an improving overall economic situation in the European Union (EU) stimulated higher raw milk production. This expansion in output is expected to continue into 2011 in response to stronger farm-gate prices and higher world dairy product demand. EU dairy herd inventory numbers continue to decline. Though total animal numbers are on the decline, average milk yields are on the rise as the extensive culling of poorer performing cattle in 2008 and 2009 has left animals from stronger genetic stock in production.

In 2010, food processors are expected to consume most of the increased output in raw milk for cheese production, as that product generates higher profit margins than do butter, non-fat dry milk (NFDM) and whole dry milk (WDM). In 2010, production of cheese is the major driving force of the EU's dairy sector responding to strong export demand, mostly to the Russian market, and to regional recovery in the domestic market that overall had been dampened by the economic downturn. In 2011, further growth in the cheese sector would be constrained by raw input availability.

In 2010, the European Commission shied away from intervening in the butter and NFDM markets due to high market prices. Intervention stocks of butter, built in 2009, are disappearing through internal food assistance programs and exports. By the end of 2010 stocks of butter, remaining in private storage, should return to historical levels. In the second half of 2010 high world market prices for butter should stimulate butter exports fueled with intervention and private storage stocks. Output of butter in 2011 is expected to decline in comparison to the 2010 due to lower domestic consumption and continued higher profitability on cheese production.

Intervention stocks of NFDM are disappearing as well through internal food aid programs in 2010. Exports are expected to increase due to strong demand from Russia and China in the wake of reduced competition from Oceania. Remaining stocks should be partly disbursed through food assistance programs and export channels in 2011. If market prices for butter and NFDM remain at or near current levels in 2011, EU intervention would not be likely.

In 2010, EU production and trade of whole dry milk (WDM) should decline in response to higher profitability of cheese production and increased competition from Oceania.

The PS&D numbers in this report are not official USDA numbers. The numbers are the result of a group effort by the individual FAS EU offices to consolidate PS&D's from all EU27.

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Commodities:

Dairy, Milk, Fluid

Production, Supply and Demand Data Statistics:

Country:	EU-27					
Commodity:	Dairy, Milk (1000 Head / 1000 MT)					
	2009		2010		2011	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2009		01/2010		01/2011	
Cows In Milk	24,192	24,192	23,662	23,662	0	23,500
Cows Milk Deliveries to Dairies	133,700	133,700	134,000	134,200	0	134,700
Other Milk Production	4,020	4,020	4,020	4,020	0	4,020
Total Milk Production	137,720	137,720	138,020	138,220	0	138,720
Extra EU27 Imports	15	16	10	10	0	10
TOTAL SUPPLY	137,735	137,736	138,030	138,230	0	138,730
Extra EU27 Exports	171	171	170	200	0	200
Fluid Use Dom. Consumption	33,700	33,700	33,700	33,850	0	33,900
Factory Use Consumption	103,864	103,865	104,160	104,180	0	104,630
Feed Use Dom. Consumption	0	0	0	0	0	0
Total Dom. Consumption	137,564	137,565	137,860	138,030	0	138,530
TOTAL DISTRIBUTION	137,735	137,736	138,030	138,230	0	138,730

Production:

In 2010, milk production in the EU-27 is expected to increase, despite fewer producing cows, on the strength of a higher average yield per remaining animal. Since 2008 farmers have been culling poorer performing animals due to unfavorable market conditions for dairy products. Continued culling, with the corollary increasing average yield, is expected in the out year. Average farm-gate prices for milk are on the rise after a period of volatility in 2009. Stronger demand for raw milk spurred by improved world market conditions for dairy products should enable the European Union (EU) to avoid undertaking market intervention measures this next year. Despite an expected increase in production the 2010/11 EU dairy quota (April-March) is not expected to be filled. While raw milk production is increasing in the Northern European countries, led by Germany, France and the Netherlands, it is on the wane in Southern European countries, led by Spain, Portugal and Greece followed by Romania and Bulgaria.

Country Specific Information

Since 2009, the **German** dairy market has improved significantly driven by revived demand from the international market. With prices having bottomed out buyers are starting to contract for periods longer than a month now. The farm-gate price for raw milk is on the rise. Higher demand for cheese from regional and global markets plus increasing profit margins for cheese products is attracting raw milk more to production of cheeses, and less to butter and milk powders. Producer prices vary widely now depending on product portfolio of the dairy company, i.e. farmers that sell to cheese producing companies can expect a higher milk price than farmers delivering to companies producing powders. In 2009/10 **Germany** implemented the one percent quota increase established under the 2008 CAP Health Check. For the first six months of 2010, **German** milk deliveries remained unchanged as compared to 2009. However, in July and August, delivery quantities rose. In addition, slaughter rates for dairy

animals are on the decline indicating farmers' more optimistic assessment of market trends. For 2010 and 2011 **German** raw milk production is expected to increase only slightly, to approximately 28.6 million metric tons (MMT) total. In June 2010, the average farm gate price had recovered to 30.7 Eurocent per kilogram, which also explains the slight expansion of milk deliveries at the start of the third quarter.

In 2010, the **French** Ministry of Agriculture brokered an agreement between dairy farmers and processors following many months of disputes and demonstrations. The agreement links **French** producer prices to German producer prices which are typically lower and more reflective of world prices levels and trends. During the first half of 2010, **French** producer prices fluctuated between 27.5 and 30 Eurocent per kilogram. Based on the recent agreement among farmers, processors and national authorities, average producer prices for 2010 will amount to 29.7 Eurocent per kilogram, i.e., or 10 percent above the 2009 average. While **French** dairy cow inventories are expected to decline into 2011 due to decreasing number of farmers, cow productivity should increase as better stock should remain in production. **France** underutilized its 2009/10 national production quota, by a record two MMT, as a consequence of lower producer prices and voluntary non-implementation of the 2008 CAP Health Check authorized one percent national production quota increase in an effort to prevent a decrease in milk prices. In 2010, growth in **French** raw milk production will be driven by processing demands as fluid milk consumption remains stagnant. France's 2010/11 national production quota will increase two percent per the CAP Health Check. In 2011, **French** fluid milk deliveries are expected to increase as domestic consumption responds positively in a recovering economy and export perspectives improve along with rising demand from emerging markets.

In both 2010 and 2011, milk deliveries in **The Netherlands** are expected to increase. Unfavorable weather conditions during the 2010 summer and projected higher feed prices during the 2010-2011 period should not arrest productivity. In 2009/10 quota year, Dutch producers exceeded their milk production quota by 0.4 percent. Dimmer market conditions will eventually push smaller farmers out of production. However, farms with the worst financial position are often the bigger farms holding a high percentage of loans. In **Spain** very unfavorable economic conditions this last year spurred contraction in the dairy sector (by 1,200 farms) and the national dairy herd. In 2010, stronger market conditions in **Sweden** for organic milk have driven deliveries up by almost 10 percent, to 8.7 percent of total milk production. Conversely, deliveries of "conventional" milk are on the decline. **Danish** dairy cow numbers are increasing in response to higher milk quotas and increased optimism among dairy farmers.

In **Romania and Bulgaria**, dairy cow inventories continue to decline due to the on-going sector restructuring, lack of domestic support and depressed demand for raw milk. For 2010, cow numbers are expected to decline by five percent in reaction to declining raw milk consumption and competition from imported fluid milk. In 2011, these factors should contribute to another 3 percent decline in animal numbers. More frequently milk-processors are finding it too costly to collect milk from rural areas – both in terms of logistics and safety – and prefer importing from neighboring countries. The deteriorating production environment is occurring despite the EU approving a two-year extension to enable more farms to come up to grade. Both Bulgaria and Romania have extended the derogation period for deliveries of non-compliant raw milk to processing establishments until December 31, 2011. These extensions concern both milk quality standards (hygiene) and structural requirements. Non-compliant milk and its derivatives can be traded on the domestic market only. Of the total amount of milk delivered to dairy plants in Romania and Bulgaria, an estimated 60 and 50 percent, respectively,

complies with EU standards. In part as a consequence of quality concerns and economic conditions fluid milk consumption in each country is expected to decline in 2010.

In the **UK** low returns and tight margins, largely due to high feed prices and low milk prices, means rationalization of the dairy sector continues. Although farm numbers are declining, the reduction in cattle numbers is now balanced. Per cow productivity is on the increase and milk output has steadied at around 13.2 MMT, or roughly 8 per cent below the MY 2002 peak. Overall, **UK** production remains significantly below quota and is expected to remain so through to the end of the current quota regime. This situation contrasts sharply with **the Republic of Ireland** where no such exodus of farmers is occurring, market sources citing the economic advantages of it being a grass-fed sector. With cattle numbers also steady, **Ireland** is consistently producing to its quota and many in the country are looking forward to the end of the quota regime. In 2010, milk deliveries in **Poland** are expected to decline due to a four percent decrease in cow numbers resulting from the low milk prices experienced in 2009. By 2011 production is expected to recover as farm-gate prices increase to in response to stronger demand for dairy products within the EU.

Consumption:

In 2010, fluid milk use in the EU-27 is expected to increase in line with economic recovery in various countries, especially United Kingdom. In 2010, United Kingdom is expected to experience a large increase in fluid milk consumption as retailers are engaged in extensive price promotions across the country. Factory use is expected to increase in 2010 as well, driven by growing demand for cheeses.

Policy:

Outcome of the High Level Expert Group on Milk

As reported in GAIN report "[High Level Group makes 7 recommendations for EU dairy sector - Brussels USEU EU-27 6-21-2010](#)," the High Level Expert Group on Milk (HLEG) created under a French and German initiative, drafted a list of recommendations to mitigate future dairy crises. EU Commissioner for Agriculture Dacian Ciolos committed to submit a formal proposal to the Commission for implementation of the first three recommendations before the end of 2010. The three recommendations are:

- Contractual relations between milk producers and milk processors: Enhancement of formal written contracts, made in advance, to cover deliveries of raw milk (inc. price, volume, timing & duration) – through guidelines or a legislative proposal, maybe made compulsory by the Member State.
- Collective bargaining power of producers: Possible proposal for provision to allow producer organizations constituted by dairy farmers to negotiate jointly their contract terms, including price, with a dairy. Whether permanent or temporary (but sufficiently long), the provision should be subject to review.
- The possible role of inter-branch organizations in the dairy sector: Examination of whether any of the current provisions for inter-professional organizations in the fruit & vegetables sector could also be applicable in the dairy sector.

With the dairy crisis viewed as history now, EU Member States (MS) are becoming more segregated on these issues. Some MS are unlikely to support stronger supply contracts between milk producers and milk processors unless they are on a voluntary basis and limited in time. These MS fear that mandatory supply contracts will stifle any dairy market functioning. MS and processors have also become more opposed to the recommendations to strengthen the milk producers bargaining power, because this could lead to the collapse of dairy processors as many of them already now operate on thin margins. MS and processors fear that stringent supply contracts with enhanced dairy producer groups will concentrate all the market hazards at the dairy processor level. Under these circumstances, it remains unclear how any proposal from Commissioner Ciolos will deal with these concerns. Expert studies, stakeholder position papers and other documents related to the work of the HLEG have been compiled at http://ec.europa.eu/agriculture/markets/milk/hlg/index_en.htm.

In September 2010, European Dairy Associations commented on the recommendations of the HLEG (see: <http://www.eurolait.be/positions> and <http://www.euromilk.org/eda/publications6.aspx?cid=1584>).

EU dairy and the CAP2013 debate

The end of the EU dairy quota system in 2014 is now widely accepted as inevitable by most dairy farmers and processors in MS. Nevertheless, different visions about the future of dairy industry remain. After the European Commission organized the ‘soft landing’ of the quota system in the 2008 Health Check CAP reform through consecutive annual increases in the dairy quota, MS and their farmers have implemented this very differently. In some MS, like The Netherlands and Denmark, farmers are already preparing for a free market scenario by increasing milk production even beyond their increased production quota. As a result, dairy production quotas have, at least, partially maintained value along with the super-levies in effect for overshooting production quota. Other MS, like France and several of the recently acceded MS, have not allocated the annual quota increases, as milk production had fallen below previous quota levels. As a result, the monetary value of dairy production quota has largely eroded. This market dynamic is leading to a relocation of dairy production, as well as a further widening of the disparity in competitiveness between dairy processors in different MS. This is especially true for dairy production in what are already disadvantaged Least Favored Areas (LFA). This process is already impacting the views on how to implement the recommendations of the HLEG and will likely further complicate discussions for the CAP2013 reform, especially discussions on Pillar 2. Another factor that may render discussions more difficult is the further strengthening of environmental restrictions in Europe for disposal of nutrients and eventually the emission of Green House Gases (GHG) from animal production.

Commodities:

Dairy, Cheese

Production, Supply and Demand Data Statistics:

Country:	EU-27					
Commodity:	Dairy, Cheese (1000 MT)					
	2009		2010		2011	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2009		01/2010		01/2011	
Beginning Stocks	0	0	0	0	0	0

Production	6,810	6,810	6,860	6,970	0	7,040
Extra EU27 Imports	81	81	80	81	0	80
TOTAL SUPPLY	6,891	6,891	6,940	7,051	0	7,120
Extra EU27 Exports	510	510	560	600	0	620
Domestic Consumption	6,381	6,381	6,380	6,451	0	6,500
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consump.	6,381	6,381	6,380	6,451	0	6,500
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	6,891	6,891	6,940	7,051	0	7,120

Production:

In 2010, cheese production in the EU-27 is expected to increase by two percent due to growing export demand and slowly recovering domestic consumption. In early 2010, margins for cheese production recovered to previous levels. In November 2009, the European Commission discontinued market intervention measures for butter and Non-Fat Dry Milk (NFDm). In response, the dairy processing industry shifted production towards cheese in 2010. Limited availability of raw milk are expected to temper further increase in cheese production in 2011.

Country Specific Information

In 2010, **German** cheese production is being stimulated by higher exports and moderately increasing domestic consumption. In 2011, cheese production and consumption is expected to continue to increase. However, as the trend points to lower fat cheeses, the increased production of cheeses will not necessarily bind much additional milk fat. In 2010, **French** cheese production is on the up, after two years of decline, triggered by rising domestic consumption recovering from last year's economically-driven lower demand. Further, since 2009, the average retail price for cheese has been declining as **French** households source lower-priced products. In 2011, **French** cheese production and consumption are expected to continue to increase as a result of a higher milk supply, a better economic situation, and no new intervention incentives expected for processors to produce more butter and skim milk powder. During 2010 and 2011, **Benelux** cheese production and third country exports are expected to recover.

Dairy companies are profiting from growing demand in export markets, the weaker Euro and increasing prices. As more milk is used for cheese production, the available supply for powder production is tightening. The dairy sector believes that cheese, in particular branded cheese, will be the main dairy product, with which the EU can compete on the world market. MY 2010 has seen an increase in **UK** production, although the number belies a shift towards the more mature cheeses. In **Romania and Bulgaria** cheese production fell during first seven months of 2010 by nine and ten percent, respectively, as consumers' incomes continue to deteriorate. In 2010, output of cheese in **Poland** is expected to decline along with the reduced milk supplies. Production is expected to recover in 2011 due to growing domestic and export demand.

Consumption:

In 2010 domestic consumption of cheese in the EU-27 is expected to recover after declining in 2009 due to better prospects for the EU's economy.

Trade:

In 2010, EU-27 exports are forecast to increase due to growing world demand, mainly from Russia. In the first six months of 2010 exports of cheese to Russia increased by 38 percent. Continuing demand from Russia and higher domestic output are forecast to provide positive stimulus for cheese exports in

2011. However, export interest would be influenced by the Euro/US\$ exchange rate. Cheese imports are forecast to remain minimal due to growing domestic supplies.

Country Specific Information

In the first five months of 2010, **German** imports and exports to non-EU countries increased by 8 and 62 percent, respectively, while trade to EU MS increased by only 4 percent. While Germany's primary extra-EU cheese supplier is Switzerland, its primary extra-EU export destinations are Russia, Japan, and Switzerland. From January through May 2010 exports to Russia increased by 88 percent and doubled to Cuba, albeit from a fairly low starting level. In the first half of 2010, **French** cheese exports have been dynamic, with increased shipments to Japan, Russia, Saudi Arabia, and South Korea pulling French cheese production up. **UK** specialty cheese imports are also on the rise, largely due to the increased popularity of blue vein cheeses. In **Romania** imports are forecast to remain at the same level throughout 2010, leading to a reduction in cheese consumption by four percent. Hungary, Germany, and most recently Bulgaria, are the main foreign suppliers of cheese to Romania.

Commodities:

Dairy, Butter

Production, Supply and Demand Data Statistics:

Country:	EU-27					
Commodity:	Dairy, Butter (1000 MT)					
	2009		2010		2011	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2009		01/2010		01/2011	
Beginning Stocks	53	53	103	103	0	53
Production	2,030	2,030	2,000	1,980	0	1,975
Extra EU25 Imports	63	63	60	65	0	65
TOTAL SUPPLY	2,146	2,146	2,163	2,148	0	2,093
Extra EU25 Exports	148	169	170	200	0	165
Domestic Consumption	1,895	1,874	1,927	1,895	0	1,880
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consum.	1,895	1,874	1,927	1,895	0	1,880
Ending Stocks	103	103	66	53	0	48
TOTAL DISTRIBUTION	2,146	2,146	2,163	2,148	0	2,093

Production:

In 2010, EU-27 butter production is forecast to decrease as more raw milk diverts to satisfy expanding demand for cheeses. This market trend is forecast to continue into 2011.

Country Specific Information

In the first half of 2010 **German** butter production is down as compared to 2009, but is expected to stabilize as higher deliveries of raw milk to processors are expected during the second half of 2010. While butter prices have increased drastically as compared to 2009 and 2008, they remain below the 2007 record average level. **German** households, prompted by the increasing consumer prices, have reduced butter purchases by over two percent during the first half of 2010. The **German** food industry has revoked its intention to return to butter and continues to use plant oil instead. In 2010, **French** butter production is projected to decline from the 2009 high when EU intervention boosted production. By year's end intervention stocks are expected to drop to zero, as significant volumes are being used under the EU-wide program to feed the needy. Domestic consumption continues to decline gradually, mainly due to health concerns with butter. **France** remains a net importer of butter. During 2006 - 2009, **Benelux** butter and butter oil production increased due to expanding milk deliveries, stagnant demand for cheese and lower fat in fluid milk demanded by consumers. At the same time, the government limited subsidies for butter use in the processing industry. In 2010 and 2011, butter and butter oil production is expected to decline mainly due to expansion of the cheese industry. Attracted by the higher profit margin, processors are shifting to production of cheeses over butter and milk powder. Contrary to previous expectations, UK butter production in 2010 is not expected to decline significantly as raw milk production and stocks stabilize. In **Spain**, while overall butter production in 2010 is expected to fall by seven percent, Spanish household consumption is expected to increase by 10

percent. In **Poland**, butter production is expected to decrease in 2010 as competition for milk fat increases from the ice cream, yogurt and fluid milk market sectors.

Consumption:

In 2010, EU-27 domestic consumption of butter is expected to increase in response to higher local demand generated by governmental assistance programs for needy people. The European Commission approved these assistance programs now being implemented by the MS. Public assistance programs are projected to continue in 2011. However, consumption patterns are expected to return to the longer term trend pattern of reduced consumption due to lower availability of butter. Health related concerns over butter are driving the longer-term downward trend.

Country Specific Information

In **Romania** butter consumption declined in the first half of 2010 as a contracting economy dampened consumer demand. The market situation is being exacerbated further with layoffs in various sectors and the VAT increase enforced in July 2010. Butter demand is not expected to stabilize until 2011.

Trade:

Butter is in short supply on the world market. Currently demand in Asia is not serviced adequately by suppliers from the EU-27, the United States and Oceania. However, with Oceania reentering the global market after a brief absence international butter markets are expected to relax by the last quarter 2010. For 2010, EU exports of butter are expected to grow, driven by high world butter prices and availability of intervention stocks. In 2011, EU exports are expected to decline somewhat due to lower domestic supplies and stronger international competition. Imports are forecast to remain stable with the existing 65,000 MT import quota and existence of relatively high private stock levels in some MS.

Stocks:

By the end of 2010, EU-27 butter stocks are expected to return to more historical norms with most product managed in subsidized private storage stocks (PSA). By the end of 2010, intervention stocks built mostly in 2009 will be consumed under EU food assistance programs. As of October 2010, the remaining intervention stocks (4,263 MT) had been already allocated for food assistance programs within the EU. As of October 2010, 74,000 MT of butter was in storage under the PSA scheme (mainly in The Netherlands, Ireland and Germany). (Note: Butter can only be committed under the PSA program from March through August.)

Policy:

At the beginning of October 2010, butter's weighted average price stood at 359 Euros per 100 kilograms. The EU intervention price is set at 221.75 Euros per 100 kilograms. If market prices remain constant, EU intervention in the butter market in 2011 would not be likely.

Commodities:

Dairy, Milk, Nonfat Dry

Production, Supply and Demand Data Statistics:

Country:	EU-27					
Commodity:	Non Fat Dried Milk (1000 MT)					
	2009		2010		2011	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2009		01/2010		01/2011	
Beginning Stocks	0	0	259	259	0	170
Production	1,080	1,080	1,020	980	0	970
Extra EU25 Imports	6	6	5	5	0	5
TOTAL SUPPLY	1,086	1,086	1,284	1,244	0	1,145
Extra EU25 Exports	230	231	320	350	0	330
Domestic Consumption	597	596	764	724	0	735
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	597	596	764	724	0	735
Ending Stocks	259	259	200	170	0	80
TOTAL DISTRIBUTION	1,086	1,086	1,284	1,244	0	1,145

Production:

In 2010, the EU-27 Non-Fat Dry Milk (NFDM) production is expected to decrease as processors eye higher profit margins offered with cheese production. High intervention stocks of NFDM built during 2009 further deter new production.

Country Specific Information

In the first half of 2010 **French** NFDM exports to non-EU destinations doubled. France is the leading EU exporter of NFDM. Increased exports are boosting production of NFDM. In the first half of 2010 **German** NFDM production declined 10 percent, as compared to 2009 when intervention was available. Exports almost doubled, as compared to the same year earlier period. **Benelux** NFDM production is expected to decline in 2010 and 2011. Demand by food processors for fresh product remains soft though the domestic market situation for fresh product remains tight. Due to the high butter price, the profit margin for NFDM remains higher than for WDM production. In contrast to the intervention stocks, commercial stocks are reportedly low. In **Poland** production of NFDM is expected to continue its downward trend in 2010 due to large stocks of intervention product and growing use of milk for manufacturing fermented products.

Consumption:

In 2010, EU-27 consumption of NFDM is expected to increase in the wake of growing demand from food and feed industry emerging from the recent economic downturn. Consumption is forecast to further increase in 2011 with lower output offset by reduced exports and stock drawdown. The EU Management Committee for Common Organization of Agricultural Markets approved national programs of food assistance to needy people for 2011. NFDM allocated for this purpose amounts to

94,000 MT subject to final approval by the European Commission. Italy, Spain, Poland and France would be the primary beneficiaries of this aid.

Trade:

In 2010, EU-27 exports are projected to increase as a result of higher demand, mainly from Russia and China. In the first six months of 2010 NFDM exports totaled 183,000 MT, an 83 percent increase in comparison to the first half of 2009. Higher world demand and limited supplies from New Zealand and Australia are driving NFDM exports. Exports should continue at a higher level during the first half of 2011 with further release of intervention stocks and continued strong demand from Asian and South African markets.

Country Specific Information

In the first half of 2010 **French** NFDM exports to non-EU destinations doubled, with significant increases recorded to Algeria, Russia, Indonesia and the Philippines. France is the leading EU exporter of NFDM, reflecting how EU dairy exporters are becoming specialized in products shipped outside of the EU. As French cheeses cannot compete price-wise with other MS cheeses in world markets, the French dairy industry is processing high value cheeses mainly for the domestic and inter-EU markets, while processing NFDM for non-EU markets. Increased exports are boosting production of NFDM. In the first half of 2010 **German** NFDM exports almost doubled, as compared to the same year earlier period, with increases most pronounced to Indonesia, Russia, Singapore, China and Saudi Arabia. Exports to Algeria continued to decline year on year. However, exports in the second half of 2010 are expected to slow as international buyers wait to see if the EU Commission releases intervention stocks.

Stocks:

In 2010, 65,000 MT of NFDM were committed for programs to feed needy people. In the fall of 2010, the EU started to sell intervention stocks at prices close to market levels. So far sales have been limited and have had no impact on the market. The use of NFDM intervention stocks for feed programs combined with sales through tenders should reduce 2010 stocks to an estimated 170,000 MT by year's end. In 2011, world market prices will determine the EU rate of release of intervention stocks. European exchange rates will play an important role for the global market competitiveness of NFDM sourced from the United States.

Country Specific Information

In France, intervention stocks remain at high levels but should decline slowly as trade demand increases. Public stock management will be a key element of 2011 NFDM market situation as any release of intervention stocks will have an impact on market price.

Policy:

At the beginning of October 2010, the weighted average price for NFDM amounted to 226 Euros per hundred kilograms, well above the EU intervention price. If prices for NFDM remain at or near current levels, EU intervention in those markets in 2011 will not be likely.

Commodities:

Dairy, Dry Whole Milk Powder

Production, Supply and Demand Data Statistics:

Country:	EU-27					
Commodity:	Dairy, Whole Milk Powder (1000 MT)					
	2009		2010		2011	
	Old	New	Old	New	Old	New
Calendar Year Begin	01/2009		01/2010		01/2011	
Beginning Stocks	0	0	0	0	0	0
Production	790	790	745	750	0	730
Extra EU25 Imports	1	1	0	0	0	0
TOTAL SUPPLY	791	791	745	750	0	730
Extra EU25 Exports	460	463	425	420	0	400
Domestic Consumption	331	328	320	330	0	330
Other Use, Losses	0	0	0	0	0	0
TOTAL Dom. Consumption	331	328	320	330	0	330
Ending Stocks	0	0	0	0	0	0
TOTAL DISTRIBUTION	791	791	745	750	0	730

Production:

In 2010, EU-27 whole milk powder (WMP) production is expected to decrease as better profitability is earned through cheese production. Both products compete for a limited supply of raw milk.

Country Specific Information

German production of WMP decreased by 10 percent in the first half of 2010, as more raw milk shifted to cheese production. **Benelux** production WDM is expected to decline in 2010 as higher prices makes NFDM production more profitable.

Consumption:

Domestic consumption of WDM is expected to remain flat.

Trade:

Lower production coupled with stiff competition from Oceania in the Asian markets is expected to hamper EU-27 export prospects in the coming year.

Country Specific Information

High prices are limiting **French** export opportunities to developing countries. During the first half of 2010, French exports dropped significantly, mainly to reduced Algeria and Senegal. New Zealand is offering the French stiff competition in those markets. Due to lower supplies, **Benelux** exports of WDM are expected to decline in 2010, despite the recovering demand in Asia.